

**MUNISING PUBLIC SCHOOLS
MUNISING, MICHIGAN
FINANCIAL STATEMENTS
For the Year Ended June 30, 2005**

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INDEPENDENT AUDITORS' REPORT

Board of Education
Munising Public Schools
Munising, Michigan 49862

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Munising Public Schools, Munising, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the Munising Public Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Munising Public Schools management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Munising Public Schools, Munising, Michigan as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 25, 2005, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 6 through 12 and 34 and 35, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education
Munising Public Schools
Munising, Michigan 49862

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Munising Public School's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards as listed under "Compliance Section" in the foregoing table of contents is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Munising Public Schools. The combining and individual fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

August 25, 2005

Munising Public Schools

Management's Discussion and Analysis (Unaudited)

Our discussion and analysis of Munising Public Schools financial performance provides an overview of the School District's financial activities for the year ended June 30, 2005. Please read it in conjunction with the financial statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

- Net assets for Munising Public Schools as a whole were reported at \$946,243, comprised of 100% governmental activities.
- During the year, Munising Public Schools expenses were \$8,215,703, while revenues from all sources totaled \$8,473,325, resulting in an increase in net assets of \$257,622.
- There were no significant changes in programs for the 2004-2005 fiscal year. With declining enrollment and uncertain State funding, the School District remained essentially status quo.
- The general fund reported an increase of \$322,779 before other financing sources (uses). This is \$134,270 greater than the forecasted increase of \$188,509. This was a result of revenues being \$80,514 higher and expenses being \$53,756 lower than forecasted, both of which are immaterial when compared with budgeted revenues of \$7,297,833 and budgeted expenditures of \$7,109,324.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Munising Public Schools financially as a whole. The *District-wide Financial Statements* Statement of Net Assets and the Statement of Activities (on pages 13 and 14) provide information about the activities the School District as a whole and present a longer-term view of those finances. The fund financial statements present the next level of detail and start on page 15. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The fund financial statements also report the School District's operations in more detail than the district-wide statements by providing information about the School District's most significant funds – the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Reporting the School District as a Whole – *District-wide Financial Statements*

Our analysis of the Munising Public Schools as a whole begins on page 8. One of the most important questions asked about the School District's finances is "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the

Management's Discussion and Analysis (Unaudited) (Continued)

current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the School District's net assets and changes in them. The School District's net assets - the difference between assets and liabilities - is one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net assets – as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as private-sector companies do. One must consider other non-financial factors, such as the quality of education provided, the safety of the schools and the condition of the School District's capital assets, to assess the overall financial health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – *Fund Financial Statements*

Our analysis of the School District's major funds begins on page 10. The fund financial statements begin on page 15 and provide detailed information on the most significant funds – not the School District as a whole. Some funds are required to be established by State law, and by bond covenants. However, the School District's Board has established other funds to help it control and manage money for particular purposes. The School District's two kinds of funds - *governmental* and *proprietary* – use different accounting methods.

- *Governmental funds* – Most of the School District's services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds in a reconciliation which follows the fund financial statements.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Management's Discussion and Analysis (Unaudited) (Continued)

The School District as a Whole

Table 1 provides a summary of the School District's net assets as of June 30, 2005:

Table 1		
Net Assets		
	Governmental Activities – 2005	Governmental Activities – 2004
Current and other assets	\$3,813,497	\$3,872,693
Capital assets, net	4,988,087	4,991,997
Total Assets	8,801,584	8,864,690
Current liabilities	1,371,375	1,170,989
Long-term liabilities	6,483,966	7,005,080
Total Liabilities	7,855,341	8,176,069
Net Assets:		
Invested in capital assets, net of related debt	(1,066,192)	(1,378,957)
Restricted	534,803	835,807
Unrestricted	1,477,632	1,231,771
Total Net Assets	\$946,243	\$688,621

The School District's net assets were \$946,243 at June 30, 2005. Capital assets, net of related debt totaling \$(1,066,192), compares the original cost, less depreciation of the School District's capital assets to long-term debt, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets of \$1,477,632 was unrestricted.

The \$1,477,632 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2004.

Table 2		
Change in Net Assets		
	Governmental Activities – 2005	Governmental Activities – 2004
Revenues		
Program revenues:		
Charges for services	\$265,155	\$ 271,584
Operating grants and contributions	961,302	895,442
Capital grants and contributions	-	-
General revenues:		
Property taxes	1,922,258	1,647,242
State sources not restricted to specific program	4,963,439	5,393,904
Investment earnings	111,332	104,845
Miscellaneous	249,839	62,777
Total Revenues	8,473,325	8,375,794

Management's Discussion and Analysis (Unaudited) (Continued)

	Governmental Activities – 2005	Governmental Activities – 2004
Program Expenses:		
Instruction	\$3,987,437	\$4,127,638
Supporting services	2,451,057	2,729,306
Community services	547	1,653
Custody and care of children	-	8,063
Payments to other governmental agencies	15,013	58,921
Facilities acquisitions	216,957	-
Food service activities	315,661	296,580
Athletic activities	156,244	160,407
Public Library activities	58,812	70,535
Interest on retirement of debt	613,211	584,928
Depreciation – unallocated	400,764	384,721
Total Expenses	<u>8,215,703</u>	<u>8,422,752</u>
Increase (decrease) in net assets	257,622	(46,958)
Net assets, beginning	688,621	735,579
Net Assets, Ending	<u>\$946,243</u>	<u>\$688,621</u>

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$8,217,363. Certain activities were partially funded from those who benefited from the programs \$266,815 or by other governments and organizations that subsidized certain programs with grants and categoricals \$961,302. We paid for the remaining "public benefit" portion of our governmental activities with \$1,922,258 in taxes, \$4,963,439 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net assets for the year of \$257,622.

Key reasons for the change in net assets were as follows:

- Net decrease in governmental fund balances of \$(92,198).
- Depreciation charged to expense of \$(400,764).
- Purchase of capital assets in the amount of \$365,626.
- Principal payment on debt in the amount of \$5,811,712 and proceeds from debt issues of (\$4,990,000).
- Other miscellaneous transactions of \$(436,754), primarily capitalizing refunding bond transactions.

Table 3 presents the cost of each of the School District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the School District's operation.

Table 3
Governmental Activities

	Total Cost Of Services	Net Cost Of Services
Instruction	\$3,987,437	\$3,177,724
Supporting services	2,451,057	2,451,057
Interest on retirements	613,211	613,211
Food service activities	315,661	2,650
Athletic activities	156,244	123,046
Totals	<u>\$7,523,610</u>	<u>\$6,367,688</u>

Management's Discussion and Analysis (Unaudited) (Continued)

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available financial resources.

The School District's Funds

As noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed the year, its governmental funds (as presented in the balance sheet on page 15) reported a combined fund balance of \$3,026,611, a decrease \$(92,198) from the beginning of the year. This decrease was planned as part of the School District's five year plan and included a \$198,073 increase in the General Fund fund balance, \$301,004 decrease in the Debt Service Fund and an increase of \$10,733 in other funds fund balance.

An increase of approximately \$63,000 in the General Fund fund balance was budgeted for the school year. The additional increase in fund balance is due to an increase in revenues of \$80,000 from homestead denials and other prior period adjustments that should result in a corresponding deduction in the 2005-06 revenues. The remainder of the difference was due to expenses being lower than forecasted. Budgeted allocations were spent conservatively by utilizing inventory. Other areas were impacted by programs new to the District, including Election Consolidation and Special Education transportation to MARESA Transition I Classroom, as well as Sault Tribe deferment of funding. The Homestead denials also positively impacted the expenditures. As stated on page 6 (Financial Highlights), these variances in budget are immaterial, as they result in just over one-half percent of the total budgeted revenues.

General Fund Budgetary Highlights

Over the course of the year, the School District's Board revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Changes to the General Fund original budget were as follows:

- Budgeted revenues were increased by \$408,290, which is an immaterial increase compared to the original budget. The largest portion of this increase was due to receipt of declining enrollment funding from the state and revenue from the land sale.
- Budgeted expenditures were increased by \$49,931 which is also an immaterial increase compared to the original budget. This was due to the addition of a school bus purchase of approximately \$58,000, which was offset by savings in various budget categories to equal the \$49,931 increase in expenditures.

Management's Discussion and Analysis (Unaudited) (Continued)

Capital Asset and Debt Administration

Capital Assets

At June 30, 2005 and 2004, the School District had \$4,938,735 and \$4,991,997, respectively, invested in a variety of capital assets including land, buildings, and machinery and equipment. (See table 4 below)

Table 4
Capital Assets at Year-End (net of depreciation)

	2005	2004
Land	\$167,626	\$185,751
Site improvements	78,768	73,849
Buildings	3,925,243	3,901,603
Equipment	593,784	678,761
Vehicles and buses	173,314	152,033
Construction-in-progress	-	-
Totals	<u>\$4,938,735</u>	<u>\$4,991,997</u>

This year's additions of \$365,626 included technology, vehicles, and building renovations. No debt was issued for these additions.

We anticipate capital additions for the 2004-2005 fiscal year will be comparable to the 2004-2005 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At June 30, 2005 and 2004, the School District had bonds outstanding as depicted in Table 5 below.

Table 5
Outstanding Debt at Year-End

	Governmental Activities – 2005	Governmental Activities – 2004
General obligation bonds	<u>\$5,549,242</u>	<u>\$6,370,954</u>

There was one new addition of long-term debt this year, whereby 2005 Refunding Bonds were issued to refund the Capital Appreciation Bond issue. We present more detailed information about our long-term debt in the notes to the financial statements.

Economic Factors and Next Year's Budgets

Our elected officials and administration consider many factors when setting the School District's fiscal year 2005 budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2005 fiscal year budget was adopted in June 2004, based on an estimate of students that will be enrolled in September 2004. Approximately 72 percent of total General Fund revenues is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general obligations. As a result, the district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2004-2005 school year, we anticipate that the fall student count will be close to

Management's Discussion and Analysis (Unaudited) (Continued)

the estimates used in creating the 2005 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget, if actual district resources are not sufficient to fund original appropriations.

The State budget continues to be an area of concern for local school districts. State revenues are falling short of projections, which could mean reduced funding at the local level.

Contacting the School District's Financial Management

This financial report is designated to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Munising Public Schools, 411 Elm Street, Munising, Michigan 49862.

Munising Public Schools

Statement of Net Assets

June 30, 2005

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,149,849
Investments	479,153
Receivables:	
Accounts receivable	127,561
Delinquent property taxes	-
Due from other governmental units	998,182
Inventories	55,871
Prepaid expense	2,881
TOTAL CURRENT ASSETS	3,813,497
Non-current assets:	
Unamortized bond issue costs	49,352
Capital assets	12,280,211
Less accumulated depreciation	(7,341,476)
TOTAL NON-CURRENT ASSETS	4,988,087
TOTAL ASSETS	8,801,584
LIABILITIES	
Current liabilities:	
Accounts payable	97,650
Accrued liabilities	672,653
Deferred revenue	16,583
Current portion of long term debt obligations	584,489
TOTAL CURRENT LIABILITIES	1,371,375
Non-current liabilities:	
Non-current portion of employee benefit obligations	1,014,176
Non-current portion of long term debt obligations	4,964,753
Deferred gain and premium on refunding bonds	505,037
TOTAL NON-CURRENT LIABILITIES	6,483,966
TOTAL LIABILITIES	7,855,341
NET ASSETS:	
Invested in capital assets net of related debt	(1,066,192)
Restricted:	
Debt Service	534,803
Unrestricted	1,477,632
TOTAL NET ASSETS	\$ 946,243

The accompanying notes are an integral part of these financial statements.

Munising Public Schools

Statement of Activities

For the Year Ended June 30, 2005

Function / Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Operating Grants and Contributions	
Governmental Activities:					
Instruction	\$ 3,987,437	\$ -	\$ 809,713	\$ -	\$ (3,177,724)
Supporting services	2,451,057	-	-	-	(2,451,057)
Community services	547	-	-	-	(547)
Custody and care of children	-	-	-	-	-
Payments to other governmental agencies	15,013	-	-	-	(15,013)
Facilities acquisitions	216,957	-	-	-	(216,957)
Food service activities	315,661	161,422	151,589	-	(2,650)
Athletic activities	156,244	33,198	-	-	(123,046)
Public library activities	58,812	70,535	-	-	11,723
Interest on retirement of debt	613,211	-	-	-	(613,211)
Depreciation - unallocated	400,764	-	-	-	(400,764)
TOTAL GOVERNMENTAL ACTIVITIES	8,215,703	265,155	961,302	-	(6,989,246)
General revenues:					
Taxes					
Property taxes, levied for general purposes					1,313,450
Property taxes, levied for debt services					608,808
Federal and State aid not restricted to specific purposes					
General					4,963,439
Interest and investment earnings					111,332
Miscellaneous					249,839
Transfers					-
TOTAL GENERAL REVENUES AND TRANSFERS					7,246,868
CHANGES IN NET ASSETS					257,622
Net Assets, July 1					688,621
NET ASSETS, JUNE 30					\$ 946,243

The accompanying notes are an integral part of these financial statements.

Munising Public Schools

Governmental Funds

Balance Sheet

June 30, 2005

	General Fund	Debt Service Fund	Non-Major Governmental Funds	Total
ASSETS				
Cash and cash equivalents	\$ 2,205,606	\$ 68,273	\$ 17,606	\$ 2,291,485
Investments	-	479,153	-	479,153
Receivables:				
Accounts receivable	115,205	-	12,356	127,561
Delinquent property taxes	-	-	-	-
Due from other funds	-	-	123,046	123,046
Due from other governmental units	998,182	-	-	998,182
Inventories	51,954	-	3,917	55,871
Prepaid expense	2,881	-	-	2,881
TOTAL ASSETS	\$ 3,373,828	\$ 547,426	\$ 156,925	\$ 4,078,179
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Cash overdrafts	\$ -	\$ 12,623	\$ 129,013	\$ 141,636
Accounts payable	96,545	-	1,105	97,650
Accrued liabilities	669,158	-	3,495	672,653
Due to other funds	123,046	-	-	123,046
Deferred revenue	16,583	-	-	16,583
TOTAL LIABILITIES	905,332	12,623	133,613	1,051,568
FUND BALANCES:				
Reserved for:				
School service activities	-	-	5,630	5,630
Athletic activities	-	-	-	-
Public Library activities	-	-	17,682	17,682
Retirement of debt	-	534,803	-	534,803
Unreserved:				
Undesignated	2,468,496	-	-	2,468,496
TOTAL FUND BALANCES	2,468,496	534,803	23,312	3,026,611
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,373,828	\$ 547,426	\$ 156,925	\$ 4,078,179

The accompanying notes are an integral part of these financial statements.

Munising Public Schools

Governmental Funds

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2005

Total Fund Balances for Governmental Funds		\$	3,026,611
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
	Cost of capital assets		12,280,211
	Accumulated depreciation		<u>(7,341,476)</u>
			4,938,735
Unamortized bond issue costs are not financial resources and therefore are not reported in the funds			
			49,352
Long-term liabilities are not due and payable in the current period and are not reported in the funds. Long-term liabilities at year-end consist of:			
	Bonds payable - current		-
	Bonds payable - long term		5,549,242
	Deferred premium on refunding bonds		349,842
	Deferred gain on refunding bonds		155,195
	Employee benefits payable		<u>1,014,176</u>
			(7,068,455)
NET ASSETS OF GOVERNMENTAL ACTIVITIES			\$ <u>946,243</u>

The accompanying notes are an integral part of these financial statements.

Munising Public Schools

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2005

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
REVENUES:				
Property taxes	\$ 1,184,368	\$ 608,808	\$ -	\$ 1,793,176
Federal sources	400,286	-	131,576	531,862
State Aid	5,326,676	-	20,013	5,346,689
Local sources	425,111	-	265,155	690,266
Interest	41,906	69,426	-	111,332
TOTAL REVENUES	<u>7,378,347</u>	<u>678,234</u>	<u>416,744</u>	<u>8,473,325</u>
EXPENDITURES:				
Current:				
Instruction	4,091,848	-	-	4,091,848
Supporting services	2,548,246	-	-	2,548,246
Community Service	547	-	-	547
Custody and Care of Children	-	-	-	-
Payments to other governmental agencies	15,013	-	-	15,013
Facilities acquisitions	399,914	-	-	399,914
Food service activities	-	-	315,661	315,661
Athletic activities	-	-	156,244	156,244
Public Library activities	-	-	58,812	58,812
Debt Service:				
Principal	-	425,478	-	425,478
Interest	-	436,972	-	436,972
Other	-	86,143	-	86,143
TOTAL EXPENDITURES	<u>7,055,568</u>	<u>948,593</u>	<u>530,717</u>	<u>8,534,878</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>322,779</u>	<u>(270,359)</u>	<u>(113,973)</u>	<u>(61,553)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in (out)	(124,706)	-	124,706	-
Proceeds from sale of bonds	-	4,990,000	-	4,990,000
Premium on sale of bonds	-	363,615	-	363,615
Payment to escrow agent	-	(5,384,260)	-	(5,384,260)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(124,706)</u>	<u>(30,645)</u>	<u>124,706</u>	<u>(30,645)</u>
NET CHANGE IN FUND BALANCES	<u>198,073</u>	<u>(301,004)</u>	<u>10,733</u>	<u>(92,198)</u>
Fund Balance, July 1	<u>2,270,423</u>	<u>835,807</u>	<u>12,579</u>	<u>3,118,809</u>
FUND BALANCE, JUNE 30	<u>\$ 2,468,496</u>	<u>\$ 534,803</u>	<u>\$ 23,312</u>	<u>\$ 3,026,611</u>

The accompanying notes are an integral part of these financial statements.

Munising Public Schools

Governmental Funds

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities**

For the Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds	\$ (92,198)
---	-------------

*Amounts reported for governmental activities in the statement
of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense	(400,764)	
Capital outlays - facilities acquisition	182,957	
Capital outlays - supporting services	97,189	
Capital outlays - instruction	85,480	
	(35,138)	(35,138)

To remove the net book value of land sold	(18,124)
---	----------

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets.	(4,990,000)
--	-------------

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	5,811,712
--	-----------

Unamortized bond issue costs are reported as expenditures in the governmental funds when incurred. However, for governmental activities those costs are shown in the statement of net assets and amortized over the life of the bond issuance as other costs in the statement of activities.	49,352
--	--------

Deferred gain on refunding bonds is reported in the governmental funds when incurred. However, for governmental activities those gains are shown in the statement of net assets and amortized over the life of the bond issuance as other costs in the statement of activities.	(155,195)
---	-----------

The premium on refunding bonds is reported in the governmental funds when incurred. However, for governmental activities those gains are shown in the statement of net assets and amortized over the life of the bond issuance as other costs in the statement of activities.	(349,842)
---	-----------

Some expense reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	37,055
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Change in Net Assets of Governmental Activities	<u>\$ 257,622</u>
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The accompanying notes are an integral part of these financial statements.

Munising Public Schools
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2005

	<u>Totals</u>
ASSETS:	
Cash and cash equivalents	\$ <u>126,614</u>
TOTAL ASSETS	<u><u>\$ 126,614</u></u>
LIABILITIES:	
Due to groups, organizations and activities	\$ <u>126,614</u>
TOTAL LIABILITIES	<u><u>\$ 126,614</u></u>

The accompanying notes are an integral part of these financial statements.

MUNISING PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A – THE FINANCIAL REPORTING ENTITY:

The School District operates under an elected Board of Education of seven (7) members, which are elected across the District to establish programs and policies.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the financial position of the Munising Public Schools, Alger County. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

Based upon the application of these criteria, the financial statements of the Munising Public Schools contain all the funds controlled by the School District's Board of Education as no other entity meets the criteria to be considered a component unit of the School District nor is the School District a component unit of another entity.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

BASIS OF PRESENTATION

District-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. They include all funds of the School District except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through State sources, intergovernmental revenues, and other non-exchange revenues. All of the School District's district-wide activities are considered to be governmental activities.

Fund Financial Statements:

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The School District reports the General Fund as its major governmental fund in accordance with the above criteria. The funds of the School District are described below:

Governmental Funds

General Fund – The General Fund is the main operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects). The special revenue funds for the Munising Public Schools are the Food Service, Athletics and Public Library Funds.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources such as taxes, state aid and interest revenue for the payment of general long-term debt principal, interest, and related costs.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the district-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resource measurement focus as defined in item (b) below. In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the district-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

Cash and Equivalents

The School District cash and cash equivalents as reported in the Statement of Net Assets are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with maturities of three months or less.

Investments

Investments are carried at market value.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due From and To Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Inventory

The School District utilizes the consumption method of recording inventories of materials and food supplies. Under the consumption method, inventories are recorded as expenditures when they are used. The inventory is valued at the lower of cost (first-in, first-out) or market.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets’ estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the district-wide financial statements.

Long-Term Debt

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the district-wide statements.

Compensated Absences

The School District's policies regarding compensated absences permits employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the district-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.

Deferred Revenues

In the district-wide statements, deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable. The School District has reported deferred revenue of \$16,583 in the General Fund for grant funding that has been received but is unearned.

Equity Classification

District-Wide Statements

Equity is classified as net assets and displayed in three components:

1. Invested in Capital Assets, Net of Related Debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted Net Assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
3. Unrestricted Net Assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate. Proprietary fund equity is classified the same as in the district-wide statements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Revenues

District-Wide Statements

In the district-wide Statement of Activities, revenues are segregated by activity, and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

Fund Statements

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the School District's policy to use the restricted resources first.

Property Taxes

Property tax revenue is recognized in the year for which taxes have been levied, provided they are available to finance expenditures of the current period.

Expenses/Expenditures

District-Wide Statements

In the district-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

In the proprietary fund financial statements, expenses are classified by operating and nonoperating and are sub-classified by function such as personnel services and other services and charges.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the district-wide statements. Exceptions to this rule are (1) activities between funds reported as governmental activities and funds reported as business-type activities; and (2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets between funds without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Budgets and Budgetary Accounting

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is approved by the Board of Education.
- d. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board of Education.
- e. All annual appropriations lapse at fiscal year end.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE C – DEPOSITS AND INVESTMENTS:

Cash Equivalents

As of June 30, 2005, the District's cash and cash equivalents and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and equivalents	\$2,149,849	\$126,614	\$2,276,463
Investments	479,153	-	479,153
	<u>\$2,629,002</u>	<u>\$126,614</u>	<u>\$2,755,616</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State law does not require and the District does not have a deposit policy for custodial credit risk. As of June 30, 2005, \$2,261,764 of the District's bank balance of \$2,461,764 was exposed to custodial credit risk as being uninsured and uncollateralized.

Investments

As of June 30, 2005, the District had the following investments.

Investment Type	Fair Value	Investment in Maturities (In Years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. Treasury Notes	<u>\$479,153</u>	<u>\$236,353</u>	<u>\$242,800</u>	<u>\$-</u>	<u>\$-</u>

NOTE C – DEPOSITS AND INVESTMENTS (Continued):

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the District's investments. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The District has no investment policy that would further limit its investment choices. Ratings are not required for the District's investment in Treasury Notes. The District's investments are in accordance with statutory authority.

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer.

NOTE D – DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governments consist of \$998,182 due from the State of Michigan for State Aid.

NOTE E – ACCRUED LIABILITIES:

A summary of accrued liabilities at June 30, 2005 is as follows:

	Governmental Activities
Accrued wages	\$545,311
MESSA payable	120,044
Accrued fringes	7,298
	<u>\$672,653</u>

NOTE F – LONG-TERM OBLIGATIONS:

A summary of long-term obligations at June 30, 2005, and transactions related thereto for the year then ended is as follows:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
1978 Serial Bonds	\$750,000	\$-	\$250,000	\$500,000
School Improvement Bonds – Series 1998	59,242	-	-	59,242
Capital Appreciation Bonds	5,561,712	154,593	5,716,305	-
2005 Refunding Bonds	-	4,990,000	-	4,990,000
Subtotal	6,370,954	5,144,593	5,966,305	5,549,242
Employee Benefits	1,051,231	3,609	40,664	1,014,176
TOTAL LONG-TERM DEBT	<u>\$7,422,185</u>	<u>\$5,148,202</u>	<u>\$6,006,969</u>	<u>\$6,563,418</u>

NOTE F – LONG-TERM OBLIGATIONS (Continued):**1978 Serial Bonds
June 30, 2005**

School Year	November 1 Interest	May 1		Total
		Interest	Principal	
2005-2006	\$15,000	\$15,000	\$250,000	\$280,000
2006-2007	7,500	7,500	250,000	265,000
Totals	\$22,500	\$22,500	\$500,000	\$545,000

Serial Bonds originally issued for \$5,770,000 and dated April 1, 1978, mature annually on May 1, and bear interest at a rate of 5% to 7% per annum. Interest is paid semi-annually May 1 and November 1 of each year.

Bonds maturing in the years 1992 to 2007, inclusive, are subject to call at the option of the District in reverse order, on any interest payment date after May 1, 1990, at par and accrued interest to the date fixed for redemption, plus a premium of 1% on each bond called for redemption.

School Improvement Bonds

School Year	May 15		Total
	Interest	Principal	
2005-2006	2,023	4,489	6,522
2006-2007	1,810	4,701	6,511
2007-2008	1,586	4,926	6,512
2008-2009	1,351	5,161	6,512
2009-2010	1,106	5,406	6,512
2010-2011	848	5,664	6,512
2011-2012	8,049	22,681	30,730
2012-2013	298	6,214	6,512
Totals	\$ 17,071	\$59,242	\$76,323

The School Improvement Bonds, Series 1998 (\$92,731) dated November 24, 1998 mature annually on May 15 with interest at a rate of 4.76% per annum. The only revenue source for making the debt service payment on these School Improvement Bonds is an annual appropriation from the State of Michigan.

**2005 Refunding Bonds
June 30, 2005**

School Year	November 1 Interest	May 1		Total
		Interest	Principal	
2005-2006	\$159,289	\$106,588	\$330,000	\$595,877
2006-2007	102,463	102,463	395,000	599,926
2007-2008	97,525	97,525	400,000	595,050
2008-2009	92,525	92,525	410,000	595,050
2009-2010	86,375	86,375	425,000	597,750
2011-2015	261,625	261,625	2,460,000	2,983,250
2016-2020	14,250	14,250	570,000	598,500
Totals	\$814,052	\$761,351	\$4,990,000	\$6,565,403

On February 2, 2005, the District issued \$4,990,000 in General Obligation Bonds with an average interest rate of 3.75% to advance refund \$5,151,305 of outstanding Capital Appreciation Bonds with an average interest rate of 7.61%. The net proceeds of \$5,384,260 (after payment of \$86,355 in underwriting fees, insurance, and other issuance costs) plus an additional \$117,000 Debt Retirement Fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with

NOTE F – LONG-TERM OBLIGATIONS (Continued):

an escrow agent to provide for all future debt service payments on the Capital Appreciation Bonds. As a result, the Capital Appreciation Bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$161,305. This difference, reported in the accompanying financial statements as a component of bonds payable, is being charged to operations through the year 2016 using the effective-interest method. The District completed the advance refunding to reduce its total debt service payments over the next 11 years by \$2,047,598 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$1,332,212.

As of June 30, 2005 the aggregate maturities of long-term debt for the next succeeding five years are as follows:

	Principal	Interest	Total
2005-2006	\$584,489	\$297,900	\$882,389
2006-2007	649,701	221,736	871,437
2007-2008	404,926	196,636	601,562
2008-2009	415,161	186,401	601,562
2009-2010	430,406	173,856	604,262
2011-2015	2,494,559	532,445	3,027,004
2016-2020	570,000	28,500	598,500
2021-2022	-	-	-
Employer Benefits Payable	1,014,176	-	1,014,176
TOTALS	\$6,563,418	\$1,637,474	\$8,200,892

NOTE G – EMPLOYEE BENEFITS – COMPENSATED ABSENCES:

The School District accrues the liability for earned sick leave based on the termination method. The liability is accrued as the benefits are earned. Teachers meeting the requirements for retirement are paid \$200 per day up to 130 days of unused accumulated sick leave to be paid over three years in equal installments. Also upon retirement under the appropriate requirements the retiree is paid one month's pay based on a ten month school year at the teacher's current rate of pay excluding extracurricular pay. Other non-teaching employees are paid for sick leave based on their appropriate contract.

As of June 30, 2005 the liability for employee benefits as reported in the statement of net assets is as follows:

Sick Leave	\$523,385
Vacation Leave	65,251
Retirement	425,540
	<u>\$1,014,176</u>

NOTE H – CAPITAL ASSETS:

Capital assets activity of the School District's governmental activities was as follows:

	Balance 7/01/04	Additions/ Adjustments	Deductions	Balance 6/30/05
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$185,751	\$-	\$18,125	\$167,626
Capital assets being depreciated:				
Site improvements	434,618	9,718	-	444,336
Buildings	8,545,901	199,242	-	8,745,143
Equipment	2,549,049	97,841	-	2,646,890
Vehicles and buses	217,390	58,826	-	276,216
Total Capital Assets	11,932,709	365,627	18,125	12,280,211
Less accumulated depreciation:				
Site improvements	(360,769)	(4,799)	-	(365,568)
Buildings	(4,644,298)	(175,602)	-	(4,819,900)
Equipment	(1,870,288)	(182,818)	-	(2,053,106)
Vehicle and buses	(65,357)	(37,545)	-	(102,902)
Total Accumulated Depreciation	(6,940,712)	(400,764)	-	(7,341,476)
Governmental Activities Capital Assets, Net	\$4,991,997	\$(35,137)	\$18,125	\$4,938,735

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:	
Unallocated	\$400,764
Total Governmental Activities Depreciation Expense	\$400,764

NOTE I – RESERVED AND DESIGNATED FUND EQUITY:

The School District reserves fund equities for the following funds:

School Lunch Fund – The resources of the School Lunch Fund are to be used for the school lunch program. The fund equity is reserved for this purpose.

Debt Service Funds – The resources of the Debt Service Funds have been accumulated for the specific purpose of bond and interest debt retirement. The fund equities are reserved for these purposes.

NOTE J – STATE REVENUE:

The State of Michigan currently uses a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenue from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005, the foundation allowance was based on the three-year blended average of pupil membership.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2004 - August 2005.

NOTE J – STATE REVENUE (Continued):

The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

NOTE K – FUND MODIFICATIONS (TRANSFER TO/FROM OTHER FUNDS):

A summary of operating transfers to/from other funds during fiscal year 2004 is as follows:

	Operating Transfers In		Operating Transfers Out
Athletic Fund	<u>\$123,046</u>	General Fund	<u>\$123,046</u>

NOTE L – NONMONETARY TRANSACTIONS:

The School District receives USDA donated food commodities for use in its food service program which are accounted for in the School Lunch Fund. The commodities are accounted for on the modified accrual basis and the related revenues and expenditures are recognized as commodities as utilized. The School District recognized \$19,381 during fiscal 2005 in revenues and expenditures for USDA commodities.

NOTE M – PROPERTY TAXES:

The taxable value of real and personal property located in the School District at December 31, 2004 totaled \$121,951,718 (\$58,105,907 designated as Homestead and \$63,845,811 designated as Non-Homestead). The total tax levy consists of 17.4073 mills for the General Fund and 4.6 mills for debt retirement.

NOTE N – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN:

Substantially all of the School District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service or at age sixty while still working with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

**NOTE N – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN
(Continued):**

The MPERS also provides death, disability, health, medical, dental, vision and hearing insurance coverage. Benefits are established by state statute.

The District was required by state statute to contribute 12.99% of covered compensation to the Plan through September 30, 2004 and 14.87% of covered compensation for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2005 was \$662,484 which consisted of \$580,369 from the School District and \$82,115 from employees electing the MIP option. These represent approximately 15% and 2% of covered payroll, respectively.

Payroll paid to employees covered by the System for the year ended June 30, 2005 was approximately \$4,024,479. The School District's total payroll was approximately \$4,240,719.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan. MPERS' issues a publicly available financial report that includes financial statements and required supplementary information for the system. More information may be obtained by writing MPERS, at MPERS, P.O. Box 30673, Lansing, Michigan, 48909-8103.

NOTE O – CONTINGENT LIABILITIES:

Grant Assistance

The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The School District joined together with other units and created a public entity risk pool currently operating as a common risk management and insurance program. The School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

The School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments that may be required to make the pool self-sustaining.

NOTE P – ECONOMIC DEPENDENCY:

The School District received approximately 70 percent of its revenue through state and federal sources to be used for providing elementary and secondary education for the residents of Munising. The District's Foundation Allowance is set by the state and includes the local contribution from Non Homestead taxes. Increases in the local Non Homestead property tax revenues are offset by a corresponding decrease in state aid on a per pupil basis.

NOTE Q – INTERFUND RECEIVABLE AND PAYABLES:

	Interfund Receivable		Interfund Payable
Athletic Fund	<u>\$123,046</u>	General Fund	<u>\$123,046</u>

REQUIRED SUPPLEMENTAL INFORMATION

Munising Public Schools

General Fund

Budgetary Comparison Schedule

For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Local sources	\$ 1,111,818	\$ 1,453,551	\$ 1,651,385	\$ 341,733	\$ 197,834
State sources	5,360,751	5,443,998	5,326,676	83,247	(117,322)
Federal sources	416,974	400,284	400,286	(16,690)	2
TOTAL REVENUES	6,889,543	7,297,833	7,378,347	408,290	80,514
EXPENDITURES:					
Instruction:					
Basic Programs	3,195,966	3,246,980	3,240,088	(51,014)	6,892
Added Needs	867,984	858,346	851,760	9,638	6,586
Adult/Continuing education	-	-	-	-	-
Total Instruction	4,063,950	4,105,326	4,091,848	(41,376)	13,478
Supporting Services:					
Pupil services	157,360	153,170	152,877	4,190	293
Instructional staff	276,355	287,707	285,699	(11,352)	2,008
General administration	260,847	235,292	231,087	25,555	4,205
School administration	516,310	488,498	487,769	27,812	729
Fiscal services	173,341	169,524	165,048	3,817	4,476
Operation and maintenance	896,640	872,263	855,875	24,377	16,388
Pupil transportation	382,522	374,589	369,891	7,933	4,698
Total Supporting Services	2,663,375	2,581,043	2,548,246	82,332	32,797
Other Functions:					
Community Service	1,091	547	547	544	-
Custody and Care of Children	-	-	-	-	-
Total Other Functions	1,091	547	547	544	-
Payments to Other Governmental Agencies					
Other	75,023	19,398	15,013	55,625	4,385
Total Payments to Other Government Agencies	75,023	19,398	15,013	55,625	4,385
Facilities Acquisition					
Capital Outlay	254,415	403,010	399,914	(148,595)	3,096
Total Facilities Acquisition	254,415	403,010	399,914	(148,595)	3,096
TOTAL EXPENDITURES	7,057,854	7,109,324	7,055,568	(51,470)	53,756
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(168,311)	188,509	322,779	356,820	134,270
OTHER FINANCING SOURCES					
Operating transfers out	(126,789)	(125,250)	(124,706)	1,539	544
NET CHANGE IN FUND BALANCE	(295,100)	63,259	198,073	358,359	134,814
Fund Balance, July 1	2,270,423	2,270,423	2,270,423	-	-
FUND BALANCE, JUNE 30	\$ 1,975,323	\$ 2,333,682	\$ 2,468,496	\$ 358,359	\$ 134,814

Munising Public Schools

Debt Service Fund

Budgetary Comparison Schedule

For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Local sources	\$ 677,350	\$ 677,350	\$ 678,234	\$ -	\$ 884
State sources	-	-	-	-	-
Federal sources	-	-	-	-	-
TOTAL REVENUES	<u>677,350</u>	<u>677,350</u>	<u>678,234</u>	<u>-</u>	<u>884</u>
EXPENDITURES:					
Debt Service					
Principal	425,500	425,500	425,478	-	22
Interest	434,525	434,525	436,972	-	(2,447)
Other	7,112	90,604	86,143	(83,492)	4,461
TOTAL EXPENDITURES	<u>867,137</u>	<u>950,629</u>	<u>948,593</u>	<u>(83,492)</u>	<u>2,036</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(189,787)</u>	<u>(273,279)</u>	<u>(270,359)</u>	<u>(83,492)</u>	<u>2,920</u>
OTHER FINANCING SOURCES					
Proceeds from sale of bond	-	4,990,000	4,990,000	4,990,000	-
Premium from sale of bonds	-	363,615	363,615	363,615	-
Payment to escrow agent	-	(5,384,260)	(5,384,260)	(5,384,260)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(30,645)</u>	<u>(30,645)</u>	<u>(30,645)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>(189,787)</u>	<u>(303,924)</u>	<u>(301,004)</u>	<u>(114,137)</u>	<u>2,920</u>
Fund Balance, July 1	<u>835,807</u>	<u>835,807</u>	<u>835,807</u>	<u>-</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 646,020</u>	<u>\$ 531,883</u>	<u>\$ 534,803</u>	<u>\$ (114,137)</u>	<u>\$ 2,920</u>

OTHER SUPPLEMENTAL INFORMATION

Munising Public Schools

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Local Sources:			
Unrestricted:			
Taxes and Penalties:			
Property Tax Levy	\$ 1,112,997	\$ 1,184,368	\$ 71,371
Other Local Sources:			
Rental of School Facilities	4,252	4,252	-
Other Local Revenue	298,302	420,859	122,557
Income from investments	38,000	41,906	3,906
Restricted:			
Sault Tribe Funds	-	-	-
Special Education passed through the ISD	-	-	-
TOTAL LOCAL SOURCES	<u>1,453,551</u>	<u>1,651,385</u>	<u>197,834</u>
State Sources:			
Unrestricted:			
State aid	5,050,596	4,963,439	(87,157)
Restricted:			
At Risk	106,345	106,355	10
Early Childhood/MI School Readiness	-	-	-
Special Education - Hold Harmless	29,505	-	(29,505)
Durant payment	13,452	13,453	1
Gifted and talented	131	132	1
Strong families, safe children	7,740	7,740	-
Other state grants	11,829	11,829	-
Restricted - received through MARESA:			
Special Education - Hold Harmless	224,000	223,328	(672)
Miscellaneous	400	400	-
TOTAL STATE SOURCES	<u>5,443,998</u>	<u>5,326,676</u>	<u>(117,322)</u>
Federal Sources:			
Unrestricted:			
Schools and Roads Grant	40,279	40,279	-
Restricted:			
Title II	54,106	54,106	-
Title IX - Indian Education	52,944	52,944	-
Restricted - received through the state:			
E.I.C.I.A. Title I	140,003	140,003	-
E.I.C.I.A. Title V	-	-	-
E.I.C.I.A. Title II, Part A	-	-	-
Restricted - received through the FIA:			
Safe Families/Strong Communities - Tutoring	-	-	-
Restricted - received through MARESA:			
PA 94-142 Special Education Flowthrough	104,416	104,417	1
Other	8,536	8,537	1
TOTAL FEDERAL SOURCES	<u>400,284</u>	<u>400,286</u>	<u>2</u>
TOTAL REVENUES	<u>7,297,833</u>	<u>7,378,347</u>	<u>80,514</u>

Munising Public Schools

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2005

	Final Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES:			
Instruction:			
Elementary:			
Salaries	\$ 947,672	\$ 947,438	\$ 234
Fringe benefits	457,122	456,840	282
Purchased services	13,540	13,538	2
Supplies and materials	46,354	45,033	1,321
Capital outlay	-	-	-
Other expenses	1,127	1,121	6
TOTAL ELEMENTARY	1,465,815	1,463,970	1,845
Middle/Junior High			
Salaries	375,103	374,571	532
Fringe benefits	200,058	199,916	142
Purchased services	11,867	11,865	2
Supplies and materials	17,851	17,570	281
Capital outlay	-	-	-
Other expenses	1,100	805	295
TOTAL MIDDLE/JUNIOR HIGH	605,979	604,727	1,252
High School:			
Salaries	737,719	735,590	2,129
Fringe benefits	368,925	368,368	557
Purchased services	16,650	16,005	645
Supplies and materials	38,658	38,255	403
Capital outlay	-	-	-
Other expenses	1,311	1,252	59
TOTAL HIGH SCHOOL	1,163,263	1,159,470	3,793
Summer School			
Salaries	9,429	9,429	-
Fringe benefits	2,096	2,095	1
Purchased services	-	-	-
Supplies and materials	398	397	1
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL SUMMER SCHOOL	11,923	11,921	2
Special Education			
Salaries	373,383	373,367	16
Fringe benefits	175,265	175,247	18
Purchased services	29,764	29,762	2
Supplies and materials	9,908	9,882	26
Capital outlay	-	-	-
Other expenses	621	620	1
TOTAL SPECIAL EDUCATION	588,941	588,878	63

Munising Public Schools

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2005

	Final Budget	Actual	Variance Favorable (Unfavorable)
Compensatory Education			
Salaries	\$ 159,505	\$ 159,502	\$ 3
Fringe benefits	70,362	70,358	4
Purchased services	6,164	6,161	3
Supplies and materials	18,628	12,119	6,509
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL COMPENSATORY EDUCATION	<u>254,659</u>	<u>248,140</u>	<u>6,519</u>
Career and Technical Education			
Salaries	6,494	6,494	-
Fringe benefits	1,465	1,463	2
Purchased services	786	785	1
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	6,001	6,000	1
TOTAL CAREER AND TECHNICAL EDUCATION	<u>14,746</u>	<u>14,742</u>	<u>4</u>
TOTAL INSTRUCTION	<u>4,105,326</u>	<u>4,091,848</u>	<u>13,478</u>
Supporting Services:			
Pupil Services:			
Guidance:			
Salaries	19,898	19,897	1
Fringe benefits	28,576	28,571	5
Purchased services	-	-	-
Supplies and materials	946	740	206
Capital outlay	-	-	-
Other expenses	332	331	1
TOTAL GUIDANCE	<u>49,752</u>	<u>49,539</u>	<u>213</u>
Health:			
Salaries	11,644	11,644	-
Fringe benefits	2,631	2,630	1
Purchased services	-	-	-
Supplies and materials	105	103	2
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL HEALTH	<u>14,380</u>	<u>14,377</u>	<u>3</u>
Speech Pathology and Audiology			
Salaries	45,770	45,770	-
Fringe benefits	24,127	24,126	1
Purchased services	522	447	75
Supplies and materials	684	684	-
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL SPEECH PATHOLOGY AND AUDIOLOGY	<u>71,103</u>	<u>71,027</u>	<u>76</u>

Munising Public Schools

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2005

	Final Budget	Actual	Variance Favorable (Unfavorable)
Other Pupil Support			
Salaries	\$ 14,652	\$ 14,652	\$ -
Fringe benefits	3,283	3,282	1
Purchased services	-	-	-
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL OTHER PUPIL SUPPORT	17,935	17,934	1
TOTAL PUPIL SERVICES	153,170	152,877	293
Instructional Staff:			
Improvement of Instruction:			
Salaries	1,825	1,824	1
Fringe benefits	412	411	1
Purchased services	12,705	12,703	2
Supplies and materials	1,145	1,145	-
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL IMPROVEMENT OF INSTRUCTION	16,087	16,083	4
Educational Media:			
Salaries	25,808	25,808	-
Fringe benefits	7,528	7,525	3
Purchased services	3,669	3,010	659
Supplies and materials	6,464	5,552	912
Capital outlay	275	140	135
Other expenses	-	-	-
TOTAL EDUCATION MEDIA	43,744	42,035	1,709
Technology Assisted			
Salaries	59,531	59,531	-
Fringe benefits	27,120	27,118	2
Purchased services	18,714	18,440	274
Supplies and materials	44,869	44,856	13
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL TECHNOLOGY ASSISTED	150,234	149,945	289
Supervision and Direction			
Salaries	58,700	58,700	-
Fringe benefits	18,942	18,936	6
Purchased services	-	-	-
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL SUPERVISION AND DIRECTION	77,642	77,636	6
TOTAL INSTRUCTIONAL STAFF	287,707	285,699	2,008

Munising Public Schools

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2005

	Final Budget	Actual	Variance Favorable (Unfavorable)
General Administration:			
Board of Education			
Salaries	\$ -	\$ -	\$ -
Fringe benefits	-	-	-
Purchased services	27,700	24,862	2,838
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	6,250	5,013	1,237
TOTAL BOARD OF EDUCATION	<u>33,950</u>	<u>29,875</u>	<u>4,075</u>
Executive Administration			
Salaries	115,062	115,060	2
Fringe benefits	74,504	74,501	3
Purchased services	6,400	6,346	54
Supplies and materials	976	936	40
Capital outlay	-	-	-
Other expenses	4,400	4,369	31
TOTAL EXECUTIVE ADMINISTRATION	<u>201,342</u>	<u>201,212</u>	<u>130</u>
TOTAL GENERAL ADMINISTRATION	<u>235,292</u>	<u>231,087</u>	<u>4,205</u>
School Administration:			
Office of the Principal			
Salaries	307,321	306,739	582
Fringe benefits	179,873	179,726	147
Purchased services	-	-	-
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	1,304	1,304	-
TOTAL OFFICE OF THE PRINCIPAL	<u>488,498</u>	<u>487,769</u>	<u>729</u>
TOTAL SCHOOL ADMINISTRATION	<u>488,498</u>	<u>487,769</u>	<u>729</u>
Business Services:			
Fiscal Services:			
Salaries	85,571	85,570	1
Fringe benefits	49,205	46,671	2,534
Purchased services	18,707	17,811	896
Supplies and materials	11,041	10,024	1,017
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL FISCAL SERVICES	<u>164,524</u>	<u>160,076</u>	<u>4,448</u>
Other Business Services:			
Salaries	-	-	-
Fringe benefits	-	-	-
Purchased services	5,000	4,972	28

Munising Public Schools

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2005

	Final Budget	Actual	Variance Favorable (Unfavorable)
Supplies and materials	\$ -	\$ -	\$ -
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL OTHER BUSINESS SERVICES	5,000	4,972	28
TOTAL BUSINESS SERVICES	169,524	165,048	4,476
Operation and Maintenance:			
Salaries	289,275	289,191	84
Fringe benefits	145,840	145,472	368
Purchased services	368,547	365,405	3,142
Supplies and materials	62,340	55,180	7,160
Capital outlay	-	-	-
Other expenses	6,261	627	5,634
TOTAL OPERATION AND MAINTENANCE	872,263	855,875	16,388
Pupil Transportation			
Salaries	209,801	209,514	287
Fringe benefits	64,001	63,895	106
Purchased services	15,166	15,111	55
Supplies and materials	62,762	60,341	2,421
Capital outlay	-	-	-
Other expenses	22,859	21,030	1,829
TOTAL PUPIL TRANSPORTATION	374,589	369,891	4,698
TOTAL SUPPORTING SERVICES	2,581,043	2,548,246	32,797
Community Service			
Salaries	-	-	-
Fringe benefits	-	-	-
Purchased services	-	-	-
Supplies and materials	547	547	-
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL COMMUNITY SERVICE	547	547	-
Custody and Care of Children			
Salaries	-	-	-
Fringe benefits	-	-	-
Purchased services	-	-	-
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL CUSTODY AND CARE OF CHILDREN	-	-	-
Payments to Other Governmental Agencies			
Title II, Part A - SAM Transfer	1,157	1,157	-
Americorp	5,500	5,250	250
Early Childhood - Munising	8,606	8,606	-
Indirect Costs	4,135	-	4,135
TOTAL PAYMENTS TO OTHER GOVERNMENTAL AGENCIES	19,398	15,013	4,385

Munising Public Schools

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2005

	Final Budget	Actual	Variance Favorable (Unfavorable)
Facilities Acquisition			
Capital Outlay	\$ 403,010	\$ 399,914	\$ 3,096
TOTAL FACILITIES ACQUISITION	<u>403,010</u>	<u>399,914</u>	<u>3,096</u>
TOTAL EXPENDITURES	<u>7,109,324</u>	<u>7,055,568</u>	<u>53,756</u>
EXCESS REVENUES (EXPENDITURES)	<u>188,509</u>	<u>322,779</u>	<u>134,270</u>
Other Financing Sources (Uses):			
Operating Transfers Out:			
Lunch Fund	(1,660)	(1,660)	-
Athletic Fund	(123,590)	(123,046)	544
Public Library Fund	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING USES	<u>(125,250)</u>	<u>(124,706)</u>	<u>544</u>
NET CHANGE IN FUND BALANCE	63,259	198,073	134,814
Fund Balance, July 1	<u>2,270,423</u>	<u>2,270,423</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ 2,333,682</u></u>	<u><u>\$ 2,468,496</u></u>	<u><u>\$ 134,814</u></u>

Munising Public Schools

Debt Service Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Taxes and penalties	\$ 607,850	\$ 608,808	\$ 958
Interest	69,500	69,426	(74)
TOTAL REVENUES	<u>677,350</u>	<u>678,234</u>	<u>884</u>
EXPENDITURES:			
Principal payments	425,500	425,478	22
Interest and agent fees	437,025	436,972	53
Other	88,104	86,143	1,961
TOTAL EXPENDITURES	<u>950,629</u>	<u>948,593</u>	<u>2,036</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(273,279)	(270,359)	2,920
OTHER FINANCING SOURCES (USES):			
Proceeds from sale of bond	4,990,000	4,990,000	-
Premium on sale of bonds	363,615	363,615	-
Payments to escrow agent	(5,384,260)	(5,384,260)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(30,645)</u>	<u>(30,645)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(303,924)	(301,004)	2,920
Fund Balance, July 1	<u>835,807</u>	<u>835,807</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ 531,883</u></u>	<u><u>\$ 534,803</u></u>	<u><u>\$ 2,920</u></u>

Munising Public Schools

Non-Major Funds

Combining Balance Sheet

June 30, 2005

	Special Revenue Funds			Total
	School Lunch Fund	Athletic Fund	Public Library Fund	
ASSETS:				
Cash and cash equivalents	\$ -	\$ 2,000	\$ 15,606	\$ 17,606
Accounts receivable	9,313	890	2,153	12,356
Due from other funds	-	123,046	-	123,046
Inventory	3,917	-	-	3,917
TOTAL ASSETS	\$ 13,230	\$ 125,936	\$ 17,759	\$ 156,925
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Cash overdrafts	\$ 3,206	\$ 125,807	\$ -	\$ 129,013
Accounts payable	1,028	-	77	1,105
Accrued liabilities	3,366	129	-	3,495
TOTAL LIABILITIES	7,600	125,936	77	133,613
FUND BALANCES:				
Reserved for school service activities	5,630	-	17,682	23,312
TOTAL LIABILITIES AND FUND BALANCES	\$ 13,230	\$ 125,936	\$ 17,759	\$ 156,925

Munising Public Schools

Non-Major Funds

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2005

	Special Revenue Funds			Total
	School Lunch Fund	Athletic Fund	Public Library Fund	
REVENUES:				
Athletic activities	\$ -	\$ 33,198	\$ -	\$ 33,198
School lunch activities	161,422	-	-	161,422
Public library activities	-	-	70,535	70,535
State aid	20,013	-	-	20,013
Federal sources	131,576	-	-	131,576
TOTAL REVENUES	313,011	33,198	70,535	416,744
EXPENDITURES:				
School lunch activities	315,661	-	-	315,661
Athletic activities	-	156,244	-	156,244
Public library activities	-	-	58,812	58,812
TOTAL EXPENDITURES	315,661	156,244	58,812	530,717
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,650)	(123,046)	11,723	(113,973)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	1,660	123,046	-	124,706
TOTAL OTHER FINANCING SOURCES (USES)	1,660	123,046	-	124,706
NET CHANGE IN FUND BALANCE	(990)	-	11,723	10,733
Fund Balance, July 1	6,620	-	5,959	12,579
FUND BALANCE, JUNE 30	\$ 5,630	\$ -	\$ 17,682	\$ 23,312

Munising Public Schools

School Lunch Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
School lunch activities	\$ 161,356	\$ 161,422	\$ 66
State aid	20,013	20,013	-
Federal sources	<u>134,800</u>	<u>131,576</u>	<u>(3,224)</u>
TOTAL REVENUES	<u>316,169</u>	<u>313,011</u>	<u>(3,158)</u>
EXPENDITURES:			
School lunch activities:			
Salaries	124,499	124,499	-
Fringe benefits	57,794	57,788	6
Purchased services	831	830	1
Supplies and materials	134,712	131,555	3,157
Capital outlay	395	394	1
Other expenses	<u>585</u>	<u>595</u>	<u>(10)</u>
TOTAL EXPENDITURES	<u>318,816</u>	<u>315,661</u>	<u>3,155</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>(2,647)</u>	<u>(2,650)</u>	<u>(3)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	<u>1,660</u>	<u>1,660</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES):	<u>1,660</u>	<u>1,660</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>(987)</u>	<u>(990)</u>	<u>(3)</u>
Fund Balance, July 1	<u>6,620</u>	<u>6,620</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ 5,633</u></u>	<u><u>\$ 5,630</u></u>	<u><u>\$ (3)</u></u>

Munising Public Schools

Athletic Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Athletic activities	\$ 33,195	\$ 33,198	\$ 3
TOTAL REVENUES	<u>33,195</u>	<u>33,198</u>	<u>3</u>
EXPENDITURES:			
Athletic activities:			
Salaries	91,848	91,840	8
Fringe benefits	21,610	21,609	1
Purchased services	26,672	26,595	77
Supplies and materials	13,830	13,494	336
Capital outlay	-	-	-
Other expenses	<u>2,764</u>	<u>2,706</u>	<u>58</u>
TOTAL EXPENDITURES	<u>156,724</u>	<u>156,244</u>	<u>480</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(123,529)	(123,046)	483
OTHER FINANCING SOURCES (USES):			
Operating transfers in	<u>123,590</u>	<u>123,046</u>	<u>(544)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>123,590</u>	<u>123,046</u>	<u>(544)</u>
NET CHANGE IN FUND BALANCE	61	-	(61)
Fund Balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ 61</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (61)</u></u>

Munising Public Schools

Public Library Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Public library revenue	\$ 71,245	\$ 70,535	\$ (710)
TOTAL REVENUES	<u>71,245</u>	<u>70,535</u>	<u>(710)</u>
EXPENDITURES:			
Bookstore activities:			
Salaries	35,532	35,530	2
Fringe benefits	9,681	9,638	43
Purchased services	-	5,878	(5,878)
Supplies and materials	4,923	2,630	2,293
Capital outlay	6,022	1,690	4,332
Other expenses	<u>3,644</u>	<u>3,446</u>	<u>198</u>
TOTAL EXPENDITURES	<u>59,802</u>	<u>58,812</u>	<u>990</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	11,443	11,723	280
OTHER FINANCING SOURCES (USES)			
Operating transfer in	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	11,443	11,723	280
Fund Balance, July 1	<u>5,959</u>	<u>5,959</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ 17,402</u></u>	<u><u>\$ 17,682</u></u>	<u><u>\$ 280</u></u>

Munising Public Schools
Student Activity Agency Fund
Statement of Changes in Assets and Liabilities
For the Year Ended June 30, 2005

	Balance July 1	Additions	Deductions	Balance June 30
ASSETS				
Cash and cash equivalents	\$ 118,072	\$ 209,026	\$ 200,484	\$ 126,614
TOTAL ASSETS	<u>\$ 118,072</u>	<u>\$ 209,026</u>	<u>\$ 200,484</u>	<u>\$ 126,614</u>
LIABILITIES				
Due to others	\$ 118,072	\$ 209,026	\$ 200,484	\$ 126,614
TOTAL LIABILITIES	<u>\$ 118,072</u>	<u>\$ 209,026</u>	<u>\$ 200,484</u>	<u>\$ 126,614</u>

COMPLIANCE SECTION



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE
WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Munising Public Schools
Munising, Michigan 49862

We have audited the governmental activities, major funds, and the aggregate remaining fund information of Munising Public Schools, Michigan, as of and for the year ended June 30, 2005, which collectively comprise Munising Public Schools, Michigan's basic financial statements and have issued our report thereon dated August 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Munising Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered whether Munising Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the finance committee, management, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 25, 2005



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Munising Public Schools
Munising, Michigan 49862

Compliance

We have audited the compliance of Munising Public Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the Munising Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Board of Education
Munising Public Schools
Munising, Michigan 49862

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the School District, the Board, State and Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

August 25, 2005

MUNISING PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2005

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memorandum Only) Prior Year Expenditures	Accrued (Deferred) Revenue 07/01/04	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue 06/30/05
U.S. DEPARTMENT OF EDUCATION:							
<i>Direct Program:</i>							
P.L. 92-318 Indian Education, Title IX, E-S060A042157	84.060	\$ 47,171	45,412	\$ -	\$ 47,171	\$ -	\$ 47,171
P.L. 92-318 Indian Education, Title IX, E-S060A990116	84.060	45,412		-	-	-	-
TOTAL DIRECT		92,583	45,412	-	47,171	-	47,171
<i>Passed through Michigan Department of Education (M.D.E.):</i>							
E.C.I.A. Title I: 51530-0405	84.010	140,003		-	140,003	101,566	38,437
E.C.I.A. Title I: 41530-0304	84.010	155,398	155,398	-	-	-	-
TOTAL TITLE I		295,401	155,398	-	140,003	101,566	38,437
Title V LEA Allocation 50250-0405	84.298	5,773	-	-	5,773	2,086	3,687
Title V LEA Allocation 40250-0304	84.298	7,644	7,644	-	-	-	-
TOTAL TITLE V		13,417	7,644	-	5,773	2,086	3,687
Tech Literacy 44290-0304	84.318	3,759	3,759	-	-	-	-
Tech Literacy 54290-0405	84.318	3,558	-	-	3,558	3,558	-
TOTAL TECH LITERACY		7,317	3,759	-	3,558	3,558	-
Improving Teacher Quality 050520-0405	84.367	50,548	-	-	50,548	40,073	10,475
Improving Teacher Quality 40520-0304	84.367	51,374	51,374	-	-	-	-
TOTAL IMPROVING TEACHER QUALITY		101,922	51,374	-	50,548	40,073	10,475
TOTAL PASSED THROUGH M.D.E.		418,057	218,175	-	199,882	147,283	52,599
<i>Passed Through Marquette-Alger Regional Educational Service Agency (MARESA):</i>							
Enhancing Opportunities for Students with Disabilities: 030450 / 0203	84.027	2,104	2,104	-	-	-	-
Flow-Through 050450-0405	84.027	104,417	-	-	104,417	104,417	-

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memorandum Only) Prior Year Expenditures	Accrued (Deferred) Revenue 07/01/04	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue 06/30/05
Preschool Grant 020460-35	84.173	\$ 1,000	\$ -	\$ -	\$ 1,000	\$ 1,000	\$ -
Safe & Drug Free Schools & Communities 012860/DF01422	84.186	2,185	2,185	-	-	-	-
052860-0405	84.186	2,060	-	-	2,060	2,060	-
TOTAL PASSED THROUGH MARESA		111,766	4,289	-	107,477	107,477	-
TOTAL U.S. DEPARTMENT OF EDUCATION		622,406	267,876	-	354,530	254,760	99,770
U.S. DEPARTMENT OF AGRICULTURE: Passed Through M.D.E.:							
Nutrition Cluster:							
National School Lunch Program:							
Section 4 - All Lunches	10.555	22,286	23,003	-	22,916	22,286	630
Section 11 - Free & Reduced Lunches	10.555	73,401	70,677	-	77,835	73,401	4,434
National School Breakfast Program	10.553	14,980	11,339	-	14,980	14,980	-
TOTAL NUTRITION CLUSTER		110,667	105,019	-	115,731	110,667	5,064
Food Distribution:							
Bonus Commodities	10.550	3,537	3,548	-	3,537	3,537	-
Entitlement Commodities	10.550	15,844	15,331	-	15,844	15,844	-
TOTAL FOOD DISTRIBUTION		19,381	18,879	-	19,381	19,381	-
TOTAL PASSED THROUGH M.D.E.		130,048	123,898	-	135,112	130,048	5,064
Passed Through Other Local Units:							
Forest Service:							
Schools & Roads Grant - Alger County	10.665	40,190	42,480	-	40,190	40,190	-
Schools & Roads Grant - Schoolcraft County	10.665	89	93	-	89	89	-
TOTAL PASSED THROUGH OTHER LOCAL UNITS		40,279	42,573	-	40,279	40,279	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE		170,327	166,471	-	175,391	170,327	5,064
U.S. DEPARTMENT OF HOMELAND SECURITY:							
Passed Through Mi Department of State Police							
2003 State Homeland Security Grant Program Part II	97.004	5,477	-	-	5,477	5,477	-
GRAND TOTAL		\$ 798,210	\$ 434,347	\$ -	\$ 535,398	\$ 430,564	\$ 104,834

MUNISING PUBLIC SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2005

NOTE A – OVERSIGHT AGENCY:

The U.S. Department of Education is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the District's federal awards.

NOTE B – BASIS OF ACCOUNTING:

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

NOTE C – STATE GRANTS:

The following state grants were reported on Form R7120, Grants Section Auditors Report for the year ending June 30, 2005 and are not included on the Schedule of Expenditures of Federal Awards.

Description	Project Number	Amount Reported
School Breakfast Program	046320	\$4,955

NOTE D – FINAL COST REPORT - FORM DS4044:

The final cost reports are not due until 60 days after the end of the grant period. The reports for the current year were not completed as of the date of our report. However, we reviewed the reports filed for the prior year grants and noted that they agreed with either the prior year audited figures or the prior year and current year audit figures combined.

NOTE E – SCHEDULE OF FEDERAL AWARDS:

The amounts reported as current payments on the R7120, Grant Section Auditors Report, reconcile with the Schedule of Federal Awards as follows:

Current Payments per R7120		\$262,906
Add payments not on R7120:		
Food distribution commodities	\$19,381	
Direct Award	47,170	
Passed through MARESA	107,477	
Passed through Michigan State Police	5,477	
Passed through Local Units	40,279	
Recorded as receivable at June 30, 2005:		
Title I	38,437	
Nutrition Cluster	5,064	
Title V LEA Allocation	3,687	
Improving Teacher Quality	10,475	277,447
Less payments on R7120 not Federal:		
School Breakfast Program	(4,955)	(4,955)
TOTAL FEDERAL AWARDS EXPENDITURES REPORTED IN THE SCHEDULE OF FEDERAL AWARDS		\$535,398

NOTE E – SCHEDULE OF FEDERAL AWARDS (Continued):

A reconciliation of expenditures on the Schedule of Federal Awards to federal revenue recognized is as follows:

GENERAL FUND:	
Total Federal Revenue Sources reported in the financial statements	\$400,286
Reconciling Item:	
Bonus commodities used in FY 2004 – 2005	
as reported on the Schedule of Expenditures of Federal Awards	3,537
Rounding	(1)
SCHOOL LUNCH SPECIAL REVENUE FUND:	
Total Federal Revenue Sources as reported in the financial statements	<u>131,576</u>
TOTAL FEDERAL AWARD EXPENDITURES REPORTED IN	
THE SCHEDULE OF FEDERAL AWARDS	<u>\$535,398</u>

MUNISING PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year June 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the Munising Public Schools.
2. No reportable conditions relating to the audit of the financial statements are reported in this schedule.
3. No Instances of noncompliance material to the financial statements were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in this schedule.
5. The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
6. No audit findings relative to the major federal award program were disclosed during the audit.
7. The programs tested as major programs were:

Title I	CFDA 84.010
Flow Through	CFDA 84.027
Preschool Grant	CFDA 84.173
Title IX Indian Education	CFDA 84.060

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Munising Public Schools was determined to be a high-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

- > None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS AUDIT

- > None

MUNISING PUBLIC SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year June 30, 2005

There were no findings and questioned costs
for major federal awards in the prior year.



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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August 25, 2005

Board of Education
Munising Public Schools
Munising, MI 49862

We have audited the financial statements of the Munising Public Schools for the year ended June 30, 2005, and have issued our report thereon dated August 25, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Munising Public Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies adopted by the Munising Public Schools are described in Footnote A to the financial statements. We noted no transactions entered into by the Munising Public Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the

Board of Education
Munising Public Schools
Munising, MI 49862

financial statements and because of the possibility that future events affecting them may differ significantly from those expected. These estimates are relatively insignificant in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgement, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Munising Public School's financial reporting process (that is, cause future financial statements to be materially misstated.) In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Munising Public Schools, either individually or in the aggregate, indicate matters that could have a significant effect on the Munising Public School's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the governmental unit's financial statements or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us so as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

This information is intended solely for the use of the Munising Public Schools Board of Education, management, and any regulatory agencies and is not intended or should not be used by anyone other than specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants